

## TRANSCRIPT TO VIDEO SPECIAL REPORT: Did China's DeepSeek Just Pop The AI Stock Bubble? | Charles Hugh Smith



Alright. We should be live. Welcome to Thoughtful Money. I'm Thoughtful Money founder and your host. Thank you for joining me for this special report. Right at the end of last week, the world was rocked, I think it's fair to say, by the release of, a new Chinese, AI platform named DeepSeek. And, it has thrown a lot into question about, the future of the AI ecosystem, and then, by association, the financial markets, which are heavily, revolving around all the market cap that's been, priced into the AI stocks, the magnificent seven, if you will. So to help make, sense of this for the layman, I thought I'd have this special report just sort of, to explain what we know so far, and then to talk about what the potential implications of DeepSeq are both for the AI ecosystem, but also for the the financial markets in general. And to do that, I have asked my good friend and mentor, Charles Hughes Smith, to join me. Charles, how you doing?

Good, Adam. Thank you very much for inviting me to talk about this, super hot topic. Well, thank you. And, folks, I mentioned Charles there is one of my mentors. She and I talk, fairly regularly on the phone this weekend while I was, taking my dogs out for a long 2 hour walk.

I spent all that time talking with Charles about the potential implications of deep, of, DeepSeq. And so, I thought he'd be a great guy to bring on and and really just for us to sort of rehash the, the highlights of what we were talking about, Charles. I'll also let folks know, you know, this has obviously caught our attention. If you've been on x at all over the weekend, you realize it's caught the world's attention. I reached out to Fred Hickey, who many, you know, regular viewers of this channel have seen me interview on technological matters. I have invited him to come on the program as well, when he has, something he wants to share with the world. I believe he's still just heads down making sense of all this, and will first let his premium subscribers know, but then I'm hoping he may come on this channel. I will say, he has gone public on x saying that he

thinks this is a seminal event, in the AI industry and shares a lot of the concerns that Charles and I are about to talk about with you here. Alright, Charles. Well, look, I guess, first, let's just sort of recap for folks.

Let's say somebody was away on a long weekend, had hadn't heard about deep sync deep sync until they hopped on this call. Why is deep sync so noteworthy? Why why is it such a potential game changer here? That's a great intro, Adam. And I I wanna just preface by saying that you're the one that saw the potential here for, the classic black swan, you know, the, disruptive event that no one anticipated.

And so you alerted me, and then I started digging around, as a result of that. And then my readers started helping me, you know, find resources. And so, it's a team effort to understand something, this consequential. And so there's a lot of stuff out there already, and a lot of it is great stuff. And so what we're trying to do is, summarize what's already out there.

Mhmm. The basic idea here is that, the US approach to AI was sort of brute force, you know, use super fast, super costly, super energy consuming hardware, you know, processors to, process, vast amounts of data quickly, with high precision. And that was viewed as a as a monopolistic kind of moat. In other words, like, if you didn't have 1,000,000,000 of dollars to invest in this hardware, then then you were out of the race. You know?

You were gonna be, a loser in the AI, global race. And so now what, DeepSeq has shown, which shouldn't surprise anybody that knows much about software, and I don't claim to be an expert, but, you know, I'm an observer, is that they've they've, relied on, clever software rather than super fast hardware. And so this opens the door to getting the same results without the super costly, super energy consuming, super expensive hardware. And so that's where the revolution is. And and, the point I would start with here is they've, DeepSeq has, issued their, products as, open source.

So in other words, their software is available for people to examine. And so this is gonna be used by many other smart people. They're gonna they're gonna start

innovating along these same lines. And so this is not the, the end game here. It's the it's the start of a whole new approach to AI.

Alright. So, I think that last point I was gonna raise if you didn't, but let me just sort of knock three things about it off for people again if you didn't know what DeepSeq was before. Essentially, it's a it's a, you know, generative AI large language model platform, that is apparently as good, if not in some cases better, than the leading ones that we've all been hearing about so far. OpenAI, Gemini, Bard, whatever. The the the ones that were being built by these big, AI behemoths.

Right? And and what's notable about that is, it it it, was created for a pittance versus, what the the the the the billions and billions that have been sunken to these existing big models. So, basically, you get as good, if not even better results for way, way cheaper. It it's way, way cheaper to build, way, way cheaper to run-in terms of energy as you talked about. You don't need and we'll talk a little bit more specifically about this in a bit.

You don't need as expensive hardware to run this. In fact, you can run it on fairly cheap hardware. And to your point, Charles, and very importantly, the AI models that we've known of before last week were all closed, meaning they were they were owned by the companies that were developing them, whereas this is open source code. So anybody can copy this, run their own version of it, make whatever tweaks they want, make whatever improvements they want. So it really kinda has changed the game.

So one of the, you know, it it it raises some questions about technology, which is, wow, is AI gonna be, you know, a lot cheaper? Is this gonna be an accelerant, to the the future of AI? Because it's gonna be so ubiquitous and cheap and all that stuff and better. But, also, it's gonna throw into question a lot about the current market value that's in the magnificent seven AI related stocks, most of which are the biggest companies in the world. And a lot of their market cap over the past couple years, a lot of the growth in their market cap has been granted on the expectation that these guys were essentially gonna have a corner on the market on AI.

And DeepSeq has maybe just blown up those expectations and said, well, maybe those guys might not have much of a corner on anything going forward. You're nodding a bit as I'm saying this, but are those, you know, kind of the seminal parts of deep seek that the average layman should understand at this point in time? Yeah. I think that's an excellent summary, Adam. And, we have to look at the current space, the mag 7, as a quasi monopoly or monopolistic.

And and that was the value proposition here. In other words, was these companies have a lock, and they're gonna have 20 years of growth or 25 years or 50 years or whatever. And that, of course, is extremely reminiscent of the dotcom era bubble in the around 2000, which was looking at the Internet as a permanent growth story with super high margins. You know? Famously, in NVIDIA has, like, 75 percent to 90%, you know, margins on their their hardware. So everyone thought that was a forever story. And so now that's not a forever story. That's, already a past story. So now it's a new, game, and so we can't rely on, valuing stuff as if it's gonna grow for decades, at at its current pace. And so I think, there's a couple of other quick points here, which is I've, and, again, this all the information that's coming out is is like, you know, trying to drink out of a fire hose.

Right? So we're we're all limited by what we can, consume and understand. But it really very much in real real real time here. DeepSeq's, product can be used on a phone. Like, in other words, it it it fits on a smartphone.

Me so you don't need anything gigantic, and it can also be, downloaded and and, taken offline. So in other words, you don't you're not relying on an Internet connection to, you know, the owner or the, the the issuer of the software for anything. And so those are powerful features. And a couple of other points I wanna make here is I've been observing the AI space for, like, 40 years. And if anybody remembers Lisp, you know, the language of AI in the eighties, and that kind of thing, we've we've seen this space just disrupted and then and then crash again and again and again.

And so this is not actually unusual to say that the future that everyone thought was, hammered out and and and rock solid has already dissolved, and it's

dissolved entirely. In other words, there's a lot of people going, oh, well, NVIDIA chips are now gonna be needed in robotics and blah blah blah. Well, all that may very well be true, but the bottom line is software has eaten the monopoly world that existed before deep seek. And that's a good thing because monopoly is inherently strangling. Right?

I mean, what it does is it limits innovation and creates barriers to widespread use and so on and so forth. So in a way, the stock market has been overvaluing the Mag 7 because they thought they had a monopolistic lock on their on their markets. And so now that they're now that it's a free for all, then what's the value of those, platforms and so on? And the answer is, considerably less than when they were, valued as monopolies. And and, again, I can't stress this point.

What hard enough is it's actually way better for the economy that these monopolies have just been dissolved. There and in other words, that there that it's more of a free for all now because the core of, of productivity is 2 things. Transparency, like everybody's on the same level playing field, and 2, that there's real competition. And so now, with DeepSeq, there's gonna be a lot of different people coming out into the market with software based products that will run on smartphones. They'll run, offline if you need to.

In in other words, it's gonna be a wide open, space here again, which is good for any economy that's open. Right. And let me just, you know, note real quick. As far as we know so far. Right?

And I'm already seeing some questions here about, hey. How do we know this thing's even for real? It's from China. You know, it could just be a big hoax. I do think that we've had enough people banging on it since this was announced, I think, on Friday, that, you know, real programmers are saying no.

This thing's actually really pretty good. So as as far as we know, Charles, what you've said is right. But but, folks, you know, there probably still gonna be some curve balls, to come out around this over the next couple of days. So take everything we say with a little bit of a you know, knowing that we're peering through the fog of war here. And speaking of war, we were talking about this

yesterday, Charles, that, you know, what China appears to have done here is the, the the AI agopoly, right, these magnificent seven, companies said, look, you know, we're, you know, we're gonna be the the this is a winner take all game. It's an arms race. We're gonna win it like the US did versus the Soviets, where we're just gonna spend our competitors into bankruptcy. Right? And China basically said, alright. Well, we're we're we're we're not gonna be able to win that war necessarily.

So let's try to fight a different type of war. Not unlike, you know, how oftentimes when there's a big military power, the opposition resorts to guerrilla tactics. Right? And China said, okay. Look.

We're just we're probably not gonna be able to win or win on the timeline we want on a hardware basis, so let's try to win on a software basis. And, there are two things that you mentioned that that stuck in my mind around this. When you said this is kinda not unlike a Sputnik moment, for those that were alive during the the the time when the Russians launched Sputnik, which was famously the first satellite, ever to go into orbit. And, it was really where, you know, the west had the veil its confidence ripped out of its away from its eyes to to realize, wow. Someone's just made a technological leap that we didn't think possible, and we're now perhaps behind in this race and have to catch up.

So one, I'd I'd love to hear you opine a little bit on that. And secondly, you were making a lot of direct comparisons to, the Voyager satellite, you know, that was sent out in the seventies where they they had so little available, processing capability in that satellite that they had to get really, really good with the little bit of code they were able to write for it. And it has performed remarkably well. So, if you can just sort of elaborate on both those two points of yours because I think they're really interesting in sort of explaining why Deepsea could be so bigger. Well, thank you, Adam.

And, I I I noticed on today's, scan of the of the web that, famous investor and, you know, innovator in the browser space, Marc Andreessen, also used the exact same phrase, the Sputnik moment. So I'm not sure, whether that's a a meme that came to us at the same moment or not, but I'm I'm in good company

referring to that. I saw Goldman mentioned it too. But, again, that was after I'd heard you say it. So I wanna give you original props.

Yeah. I might have I might have been first. Who knows? Anyways, it's, what I think attracts Goldman and and and Marc Andreessen and myself to this idea is that it, it was a cultural shock, as well as a geopolitical shock, that that, our dominance was not guaranteed. And I think that that's kind of the the vibe behind this this, use of this analogy in in AI that our so called dominance is was not is not guaranteed.

And, to Adam's point, asymmetric advances, can undermine, brute force kinds of advantages. And I I'm again, I don't claim to be a software guru, but I have observed the space for, like, 40 years. And so I refer back to the Voyager mission, and you can go further back and say pioneer and so on. But the Voyager missions, launched in 1977, you know, 47 years ago, are interesting because they're still out there. They're 15,000,000,000 miles away, and we're still communicating with them, and they're still providing data.

And they they carry, remember, in in 19 in the 19 seventies, you know, the integrated circuit chip was new, and they were, very expensive and and, modest by today's standards. So the, Voyager 1 spacecraft carries 3 little, computers and with a total memory of 69 kilobytes, which is about the size of a low resolution JPEG photo. So how do you play with something that, that's that tiny? Well, you have to be really clever. And so the Voyager, spacecraft, Voyager 1, it, it had a failure.

It lost contact, and so the, last year. And so the mission, controllers, played around with it and just and realized there was one component that had failed in one of the 3, computers on board. And so they they use software to work around this, by chopping it up into little pieces, and then finding little bits of memory space where they could put it. And what I think the point here is that software, as Marc Andreessen famously said in 2011, is eating the world because it allow it allows you to bypass a lot of, hardware, barriers, if you will. And so and to Adam's point, necessity is the mother of invention.

And we've seen this throughout history where when some sort of abundance, becomes, goes away and scarcity is the reality, then people get, a lot smarter about how they're using the resource. And so, this I think that the Sputnik moment is also powerful because we're talking about, an energy, you know, kind of, picture here too, where people are talking about bringing online, you know, thousands or hundreds of thousands of more kilowatts of energy to fuel these, vast, data farms that AI supposedly needed. And so it's gonna change the energy picture because if we don't need those vast new energy sources, then that's, that frees up capital, if you will, for other better uses. Right. And and energy for other better uses.

Right. Right. And can you talk about that for just a moment? And, again, you do a good job of putting this in layman's terms. You helped me understand it yesterday.

Can you just talk really briefly about why DeepSeq, you know, can deliver equal value at much lower cost? It it's really sort of a difference in approach. Right? It it it basically has traded off a little bit of accuracy for a lot of efficiency. Correct? Yeah. I think that's a good a good way of putting it. And, again, this is my interpretation. Alright? So, I I could be wrong, you know.

So, but my interpretation of their approach is that precision in in in in getting an answer, you know, in in in the AI process. Right? Where you've you're taking samples of stuff that you've learned, and then you're projecting based on on those examples. Right? And so that process, needs to be guided.

And so that's guided by a system that we call, like, rewards. Like, the system is rewarded for for increasing the probability that the answer is correct. Yeah. So if the the OpenAI kind of brute force hardware based approaches, we're gonna go in with extremely high precision. And you can kinda think about this as, like, okay.

How many how many, decimal points are we working with in a in a number? Right? Mhmm. And so if you're gonna and then at the end of that process after it's concluded its its answer, then it's compressed, right, like everything else in the digital world. It's like your your photo on your iPhone is 2 megabytes, and



then, you know, you wanna send it in an email, then you compress it down to 200, kilobytes.

So it's the same kind of thing. You lose a lot of that precision in the compression. And so what the software approach of deep seek does is it says we're not gonna go in seeking 95%, you know, precision. We're gonna go in at 85% at the start, and we're gonna we're gonna tweak the rewards, elements of the software so that the software will, if if the probability of a correct answer is declining, the software goes, well, wait a minute. Let's just start over here.

And so you see the huge advantage of that. Instead of pressing through, like, grinding through this really high precision kind of stuff, seeking some kind of perfect answer. Instead, the software's starting out at a lower precision, and it's looking to see if it's on the wrong path. And so you can see the huge advantages in that and how it could use, 30 to 40% less processing power, which is just staggering. Right?

I mean, that's a that's a that's a order of magnitude decline in the use of of energy and processing power. So, but you can see how these sort of tricks or clever programming could compensate for just brute force processing. Yeah. And and, so, you know, that that's why it's so much cheaper. Right?

I think I've heard you said 30 to 5 I think I heard 45 times cheaper or something like that, you know, something crazy, or 45 times less, you know, energy usage or whatever. But, when you look at what companies have committed to CapEx so far, it's in the tens of 1,000,000,000. Right? I mean, it's some of the the big companies that's approaching are, you know, a 100,000,000,000 that they put into these, you know, massive farms of NVIDIA GPUs and stuff like that. What what are they saying was the total capital cost of developing DeepSeq?

Well, everybody's, extremely skeptical of this \$5,000,000 that they they put out there. And so but you know what? Let's just add, 2 orders of magnitude to that and say, actually, they spent 500,000,000. But even that's not that that's still modest, as you say, compared to, like, the 80 billions. Yeah.

Yeah. And so the and so that's gonna change, the valuation of these companies, and it's also gonna free up a lot of capital for them to invest in something else.

But again, the the whole technology space is always about agility and adaptability and, you know, a lot of those things are cliches, but but they're real. And so I I think I wanna I wanna touch on this geopolitical thing too. A lot of people are saying, oh, well, wait a minute.

Does this mean China's got the lead in AI? I don't think that it's a state or government run option here to say, oh, we're gonna control the the the world's, AI. I think what we really the dominance here is which economy is more open, more transparent, more open to sharing information, and, is gonna allow the the the greatest number of people to start innovating with these new tools. And so that's really where what it boils down to. How how weird would it be if that country were China?

It's just not historically, culturally. Those are not adjectives that are used around China. And so what's interesting is the whole world really is has an equal opportunity here. It it's like the so it's like there's systemic issues here. It's not just the software or the hardware or whatever.

It's which economy as a system is more open, more transparent, more adaptable, more flexible, and is gonna give rewards to somebody working in their garage famously, that comes up with a product that, that people love. Now the other thing is what's the pricing of of this, these tools? In other words, the the monopoly, idea or the quasi monopoly idea was we're gonna charge a couple \$100 subscription rate for access to our tools. And now if there's a tool that's free and can be downloaded on any smartphone, that subscription model is dead in the water. It's gone.

So I was gonna ask you about that. So so I I have the memory of, it's funny. I've I've told folks here that, I might try to get Brad Garlinghouse, the CEO of Ripple, on this program at some point because, I knew Brad when I worked at Yahoo way back in the day. He used to we we ran several departments, but I I knew investment was running Yahoo Mail. And I remember the day when, Yahoo was, you know, you you got kind of the base mail for free.

But if you wanted, like, some substantial storage so you didn't have to keep deleting emails, you had to upgrade the Yahoo Mail Plus. And, Yahoo was really

trying to build, you know, a premium revenue stream off of that because it had so many users. And I remember the day where Gmail came out with unlimited storage. Right? And so, basically, it was that they just declared email's gonna be free unlimited email's gonna be free for to everybody forever.

Right? And I just remember the sense of panic going on around Yahoo that day where they just saw, you know, this this revenue stream that they had and all their pro form a models just poof, go up in smoke. Is this kind of that moment for a lot of the the Mag 7 AI players, the open AIs of the world who had a business model they were counting on, and all of a sudden, you know, China said, look. Price of AI to the consumers go to 0. I think so.

And let's look at the successful, subscription models, which are basically supported by monopolistic moats. In other words, Microsoft can charge, a subscription rate for Office 365 because they control 80% of the operating systems on the planet. And so if you don't have a monopoly moat that, forces people to subscribe to your service, well, then, the the fact is digital material is basically free to copy. And, so, you know, the web is famously a giant copy machine. So, I don't see any scarcity value that anybody can, use to charge any kind of premium for these tools.

And, again, it it we can come back to the precision element of it, which is if something works 85% as good as something that's super expensive, it's probably gonna be good enough for 85% of the users. Right? Mhmm. And so I I don't see the use value in in AI in a lot of cases. Like, a lot of the big Mag 7 are thinking it's gonna it's, they're using it to improve their search.

But we're not paying a premium for that search. It's just costing them a fortune to run it. You know, we're not offered some, platform where we have to pay money for a better search engine. It's it's, so I think a lot of the AI tools are in that category that, the big players are thinking that that that there's gonna be a revenue stream somewhere down the road, you know, per your, example of email, which doesn't materialize because there's no scarcity value in this.

Alright.

So, again, folks, that's one of the reasons why this DeepSeq launch has just caught so many people's attention. It literally, you know, overnight changed people's expectations of the technology, but I think it also changed their expectations of the economics of this space. Okay. So there are some pretty big negatives that I wanna talk about with you, big potential negatives, coming out of this. But before we get to them, let me just ask you on the positive side.

You mentioned this earlier that, you know, you said, look, this is great for the consumer. Right? It's great for commerce, that this new tool is going to be perhaps much more ubiquitous, much more quickly, much more cheaply. It's gonna require less energy inputs, all that stuff. Do you see this as it's a potential catalyst for really unleashing, you know, an economic boom, not necessarily tomorrow, but but maybe over the next 5, 10 years?

You know, is this something we'll look back as sort of a watershed moment of when, you know, AI became democratized? Well, that's a great phrase, Adam, democratizing AI. And, it's unknown because as you and I discussed, privately yesterday, there's a downside to the efficiencies of AI, which is replacing human labor that can be automated. Now not all human labor can be automated, but whatever can be automated will be automated. And so, there's some excitement around using AI, say, to optimize, small business supply chains.

And, if that means being able to have fewer employees or ideally, a one person operation that used to require 5 or 10 people, then that's, the way that it's gonna go. But then the question, that you raised, which is, well, what do people who have been displaced by AI automation, what are they gonna do for a living? And and, a lot of the sort of standard responses, oh, well, they're gonna find jobs in AI. And it's all like, no. I'm sorry.

This is not that kind of revolution. By the way, this is one of the negatives that I have on my list, so we actually go on. Yeah. Anyways, it's it's it's like AI will just get better at doing its own work. And so we're not gonna we're not gonna fill that, employment void with 10,000,000 programmers of AI.

And so that's that is an issue. But on the other side of that coin is a lot of people are assuming that virtually all human work can be automated or done by robots or something. And so there's, but, actually, there's a lot of human labor that requires intuition, tacit knowledge. And, therefore, it's not really that easy to automate. If you know, you can have some tools that might help the human do their job, quicker, faster, better, but the human is still, gonna be cheaper and better than than the robot.

So, there's upsides to that, and so we can talk about that almost, for another couple hours. Like, well, how do you deal with the the employment unemployment issue here? Okay. Alright. So, but if I if I took from what you said there, Charles, there there are lots of reasons to have some excitement about what the future holds both commercially and also just, you know, hopefully, we're gonna see all sorts of breakthroughs in medical science and, you know, all sorts of things that will hopefully enrich our lives and stuff going forward.

Okay. Now let's get to my list of of worries. And and AI as a job killer is is really high on that list as folks have heard me talk about in the past. I don't wanna start there, though. I wanna start here, and, regular viewers of this channel have seen me put up this image before.

But, you know, this is a meme for those that are listening on, the podcast. It's a meme of a an elephant balancing itself on a beach ball. And, the elephant represents global capital. The beach ball represents US equities. So we've never had so much of global capital inside the US equity market.

There's just been huge inflows to the US stock market from the rest of the world over the past several years. Yet, we've never had the US equity market so concentrated in so few stocks. So the in this image here, the beach ball that the elephant is balancing on is itself being held up by a couple of ants, which I've labeled the magnificent seven stocks. I think it's something like they represented just those 7 stocks themselves represent, like, 38% of market cap, or at least they did at the time I made this meme here. So, you know, I've been sharing

this because I've been very concerned about how dependent the entire global, you know, equity market was on so few stocks.

And I'd asked the question, hey. If if 1 or more of those stocks start to stumble, you know, that could will that bring down, you know, the the the global stock market? I fear we may be about to find out the answer to that question. And as we're talking here, let's see. So this is, you know, Monday.

It's the these are the first couple of trading hours, that the market's been open since DeepSeq was released. The S and P is down 2%. The Nasdaq's down 3 a half percent. I mean, honestly, Charles, we've seen markets down much greater at at at previous, corrections. It is funny that people are kinda running around with their hair on fire at the moment, when the indices aren't down by all that much yet.

But Nvidia is down 17% as we're talking. I mean, that's that's a lot. That's a few percentages points away from a 5th of its value being gone and and, you know, a single, trading open. I'm gonna see if I can share this on my screen. And if I can't, I will, stop trying to do this.

But bear with me one second if you can. Share screen. Share screen. Zero hedge. Alright.

So, hopefully, folks, you can see, some of these headlines here. But NVIDIA, hot money turns dead money. NVIDIA is crashing below its 50 day, 100 day, and 200 day moving average. This is rare exclamation point. 2 other stories down, is cheap AI a black swan event?

So, you know, the media obviously is is, breathing pretty hard right now about, the potential that, you know, this new deep seek release could have in terms of its threat on the market value of of these Mag 7 companies that are keeping up the entire global equity market. So I guess where I'm going with you on this, Charles, is, let's assume that deep seek you know, let's assume for a moment it is as disruptive as we think it's going to be here. How big do you think the, impact is gonna be on the financial markets? Well, I think you've outlined, the core issue here, Adam, which is the, in the incredible, and historic, extremes of concentration in in these, 7 stocks and and not just in the US markets, but

globally. And so that that, leverage or concentration is, of course, makes it, makes these issues extremely vulnerable and and the whole market vulnerable. Because, of course, as you've posted before, Adam, the the number of global stock market concentration in the US is something like 65% of all global equity wealth is in the US markets, despite the US having 4% of the world's population and maybe 18% of the GDP. Mhmm. So this kind of these kinds of extremes are just sort of begging for some sort of disruption and and return to some sort of baseline. So I think that is a a a great potential risk, and I I don't really see it as as a as a possibility. I think it's more like an inevitability, and, this is what a lot of technical analysts, have pointed out.

And and historical references, right, to every bubble pops for some reason. And so we can go back after it's popped and and, argue about what the what the pins were. But the the bottom line is these dynamics occur on their, on their own. So I I also wanna emphasize that we're not really talking about 1, company or one tool. You know?

In other words, whether deep seek vanishes tomorrow or not, it doesn't matter. What matters is the approach of of using software. That's not gonna go away. Right. If I can just interrupt you for one second because I'd like you to weave this into your answer.

I'm kinda likening it to Roger Bannister breaking the 4 minute mile. Right? It was something that people just thought was humanly impossible, right, for for centuries, millennia. And then he broke it. And then I think in the year after he broke it, it was broken, like, another 12 times or something like that because people now knew it was possible.

And so to your point, China basically showed the world there's there's other ways to do this. And now that people realize there is, a ton of innovation can bloom as a result that wouldn't have happened before because people just didn't know it was possible. Yeah. That's that's a great analogy. And and, again, the point here is global capital poured into the Mag 7 and the AI space for what reason?

Well, it was considered a slam dunk. It was a guaranteed growth story, right, with no end in sight. So why not put your money where, it's gonna be safe and, and and expanding, growing, generating profits? And so that if that if that magnet idea has been muted, has been, basically evaporated, then trying to cling on to these, that idea is is going to be disastrous because it's just no longer the case. So when when we saw the last, kind of tech bubble, 25 years ago, then, the Nasdaq fell about 80% over the next two and a half years.

And I've often posted a chart of bubble symmetry, which is, you know, bubbles that that, have a sharp, ascent. They tend to decline at basically over the same time frame and and, scale. So Yeah. The Nasdaq went up for two and a half years, like in a, you know, parabolic rise from a 1000 to 5000, and then it fell in the about 2 and a half years back to a 1000. And it took, 13 years to recover. And if you adjust for inflation, it took 16 years. So it's hard not to look at history and go, well, who benefited, you know, who adjusted, more wisely? The people who sold at the beginning when they realized that the story had changed? Or the people who hung on and believed that, you know, this was a a minor, you know, problem and that, you know, they have a lot of reasons to think it's gonna come back. Well, obviously, the people who just realized the story had changed fundamentally and got out and sought some other place, to put their capital benefited far more than people that kind of clung on to the this story, seeking some reason to believe that it was still true.

And so I think we're at that that kind of moment where denial is, extremely appealing, you know, because it's sort of like, wait a minute. It it can't be this it can't have changed, you know. There's a the fundamental story still gotta be there. And if you look at the dotcom era, it's instructive because, of course, the Internet did grow. But it was no longer profitable at the rate and in and in the places that it than it had been previously growing rapidly and and expanding margins.

And so we're not saying that the AI space is dying. It's simply that it's gonna be expanding in ways that are not that are not generating gigantic margins. Yeah. And you've you've talked about that in years past where even before AI came



along, you know, there was the argument that technology is, you know, gonna continue to sort of displace human labor. But don't worry because we'll be able to tax, these corporations and then give everybody UBI, and, it'll be great. Everybody will have lots of free time, and whatever. And, you know, I remember you saying, well, look, that's that's that's not how it works. You know? Basically, these these profit margins get competed away over time. So there's just not gonna be the profits there to tax the way that people, are sort of magically thinking.

And, of course, you and I, I don't think think that would be a good thing for society anyways if we just told people, hey. Don't go to work and just, you know, collect your your your check. But you're sort of nodding as I'm saying this. So, there there is no sort of perpetual free lunch here. Right?

Yeah. And, of course, there's a lot of debates about where what's the government role, you know, and the general view, is that government shouldn't pick the winners because that typically doesn't work out that well. Right. And so the government's, ideal role, shall we say, is to keep the playing field level and, not let a monopoly take over the market and and stifle innovation. So I think that there's some truth to that, and we can look at that and say, well, you know, if the current quasi monopolies blow up and are no longer that, profitable, then that frees up, frees up, capital and talent to go elsewhere.

And and perhaps it's into a more decentralized use of of these tools as opposed to concentrating the power in a handful of giant corporations. Okay. So let me let me take that to go into my next issue. But real quick, just to put a bow around this, you know, there's a lot of discussion even going on in the live chat here of some people saying, hey. This is a by the dip moment.

Some people still saying, hey. Look. This is actually a great thing for the a o e AI ecosystem, even the big players. You know, when the dust settles, this is gonna be nothing but good news for everybody. So, again, we don't know yet exactly how this is gonna unfold.

But listening to you, Charles, it sounds like, you know, you're saying, look, 1, just given concerns about bubble valuations anyways, but also given the the the

nature of the disruption of deep seek, sounds like you're thinking this is a time to be more defensive, when it comes to the financial markets than offensive. Is that accurate to say? Yeah. And, again, it's because I've lived through bubbles. And so I I, and I felt the same emotions.

You know? Like, we're we're still dealing with human, wetware 1.0 is what I call it, which is, you know, when we are really committed to something and attached to something, then we find reasons to, support our attachment to it, and it's very hard for us to let go of it. And so that's that's the Sputnik kind of, analogy here that if if the world has indeed changed essentially overnight, then we're forced to adapt to it, or we're gonna suffer the consequences of of clinging on to something that's no longer valid. Right? Mhmm.

And so and technology does this all the time to us. So it's it's not exactly new. And, and so I think the the the the challenge for individual investors is to struggle with our own emotions, really, and and, and and to try to be as objective as possible about the nature of this change. Right? And so, and and to your point, you often counsel people to consider diversification.

So if if somebody's account is is heavily, concentrated in these Mag 7 stocks, I mean, it just kind of common sense suggests, well, maybe now is the moment to diversify. You know? And, I think I I think the I would kinda stress here that the saint the Sputnik moment is you're, riding the elevator up, and you think it's just rock solid. You know, profits are gonna be higher, and the markets caps gonna go higher, and so on and so forth. And then suddenly the elevator the floor of the elevator just drops out, and you're staring down a 90 story shaft.

And it's like, wait a minute. What happened? And I think we're kind of at that moment. And so it's gonna take a while for us to reconcile our you know, get our minds wrapped around that. And so the what's gonna happen in those in that period where we're trying to grasp, the scale of what's happened and what will happen, then, there's gonna be a lot of uncertainty.

So, you know, we we have to kind of accept or embrace that uncertainty as painful as or difficult as that is. Yeah. Well, very well said. So, Charles, I I'm I'm seeing, well, I'll just pull it up here. Mustaki says, yes.

I love Charles Hugh Smith. How would we not hit him on more frequently? So thanks for putting that because I I I actually invite Charles on a lot. He's just he's a very busy man, and very much appreciate you coming on today on on incredible short notice, Charles. And I know you have a a meeting that's coming up soon, so we're only gonna keep you for a couple more minutes.

Real quick, folks. If you've enjoyed, you know, if if you enjoy this format of bringing on a big thinker like Charles to react in real time to big world developments like, you know, this whole deep seek launch, let us know in the comment section. Actually, if you do, I'll obviously wanna do more of this. And, specifically, if you love having Charles on the show, please, let him know that in the the live chat too, and maybe it'll convince him to come back on a little bit more often in the future. Alright.

So 2 last points, then we'll wrap it up. So we talked about the threat of AI as a job killer earlier. You know, you you mentioned about, you know, people getting large amount of people getting displaced, by AI, and it's it's good if you can put them to, additional productive use. But we were kinda going back and forth on this yesterday. I think one can make the argument that this technological transition is quite different than many other ones that we had in the past where, you know, if you're if you were in the horse and buggy whip industry and you lost your job, well, you could just go walk across the street and apply for a job at the Ford Automotive Factory.

Right? The whole difference in this automation robotics AI world is to get rid of human labor. So when the human job goes away, there's not necessarily another human job that opens. Now it will create opportunity for aspiring entrepreneurs where one person now can do the job, you know, who can create a company that can do the work of a 5,000 person company without the real people. Right? It can leverage technology to to to do that. The question is is, what happens to the 5,000 people that were displaced who, in many cases, might have a skill set that's low enough or easily replicable enough by AI or or other types of, automation or robotics that they there's just literally just not that need for

them. Right? And we end up having this massive, unemployment crisis where we've just got a ton of people who just literally are unemployable. Right. So let's differentiate, the economy from the the society. And and so the general sense over the last couple decades of neoliberal capitalism or the whatever you wanna call it is, the economy dominates everything and finance dominates the economy. So, we we just let finance and technology run, and then we sort of pick up the pieces of whatever's, been, creatively destroyed or disrupted. And, actually, I think we've sort of lost sight of the fact that we also are a society, and so there's a social, system, a social platform, a social set of values. And we we we're gonna have to make some social decisions here that will influence the economy.

In other words, we you know, you can't just let the economy become your society because things like unemployment destroy your economy, by by first destroying your society. You know, your social order unravels, the social contracts, disrupted and so on. So it's it's people look at this as sort of, well, what's the government gonna do or shouldn't do or should do? And the government is in some ways an expression of our social awareness, our social values, social changes. And so if we, as a society, decide that, having paid work is a priority one way or the other, then we'll have to figure that out, and it'll have, economic impacts.

Right? Like, how are we gonna pay people, and what what do we consider useful work? If if the private sector can't fulfill that, that need to for employment, then should, the state, you know, step in and provide some kind of, platform for employment? And, of course, we saw this in the great depression with the public works programs. And so those are questions that we're gonna have to answer as a society.

And, that's that's all I would say about that. Yeah. You know, is that And I guess my question to you is is is Yeah. Do you think that deep seek deep seek development is accelerating, pulling up the date by which we, as society, are gonna have to begin to face those decisions. It seems highly likely.

Yeah. Yeah. Alright. Last question, and then we'll close it up. Does this potential introduction of cheap, ubiquitous, good AI, accelerate us towards the day where, Skynet awakens and, all the robots decide they don't need humans on earth anymore?

And and and one of the reasons why I asked this is is, you know, really, kinda up until about now, you know, AI was sort of looked at as a as a sovereign pursuit. Right? Yeah. In America, our big our big tech companies are pursuing it, but there's a lot of government involvement and there's, you know, lots of people at these companies thinking about how do we, you know, prevent AI from eventually metastasizing into something that we don't want it, to be. And there have been worries that there would be other countries that maybe didn't have a strong ethics controls as we do, which is true, potentially.

But now that it's kinda given to the world, you know, are we increasing the risk that that somebody somewhere can create an AI that decides, you know, it doesn't need humans. It want humans and and something, you know, bad happens. It's probably not gonna happen tomorrow, but could it happen in 5, 10 years? I don't know. Well, that's a that's a great topic, Adam.

And, clearly, you could, for just obvious example, you could take a drone and you could load it with software that, allowed it to autonomously kill some other humans, right, without without any human intervention, for example. That that would be very, doable, right, with to today's technology. And we don't there's no way to constrain that, right, from bad players pursuing that, right, for example. I think your larger question is, is AGI, you know, general intelligence within reach? And, of course, this is like, we can debate it.

But I think I I think there's a lot of limits on on general intelligence that are poorly understood, and I would recommend the book, *The Myth of Artificial Intelligence*, if anybody's interested in exploring the conceptual limits on general intelligence and the kind of AI we have now. So that's a separate question. You know, are we about to enter the dystopia of, you know, that robots take over? That's one question. The other question you answered you asked is is more,

relevant, I think, and and more immediate, which is, can AI be used to do things that are destructive to human life and human standard of living?

And then the answer is, unfortunately, yes. Alright. And I'd like to continue pulling on that thread with you, but it's too big a topic that we don't have with that time. But I appreciate you giving the concise answer there. Alright.

Well, Charles, look again. Thank you so much for joining us here. Very quickly, I wanna put up the link to your substack here. So folks who weren't familiar with you before this interview and they'd like to get familiar with your work, they can go to your substack. Anything you wanna tell them about it in particular?

No. Go ahead and subscribe for free. And, if I don't annoy you too much, keep going. Yeah. Not not at all.

I I I don't I don't even need to really tell folks here, you know, how much I value your thinking, and, they've just seen it for themselves here. But, yeah, folks, if if you, you know, like what you've heard from Charles today, you're gonna love what you you see on the substack there. Now, folks, for those of you that are, you know, saying, hey. Look. Adam and a lot of his guests that have been on the program have been warning about the market's vulnerability to some exogenous shock.

And now maybe, you know, deep Deepsea could potentially be one of those shocks. What does that mean for my portfolio? What steps should I consider taking, especially if I'm regretting maybe not having been a little more diversified before the this weekend? Highly recommend that you sit down with a good financial adviser who understands all the macro issues that we talk here on this channel. If you don't have one or like a second opinion, from one who does, obviously, you can just go to [thoughtful money.com](https://thoughtfulmoney.com).

Fill out the short form there and have a free consultation with one of the financial advisory firms that thoughtful money endorses. And, you know, these are the firms you see with me on this channel week in and week out. I also just wanna remind folks too, you can bet your bottom dollar. We will be talking about, the implications of this, at thoughtful money's fall conference, which again is coming up on Saturday, March 15th. And if you wanna get your ticket for

that at the lowest early bird price, which we're still offering it at right now, go to [thoughtful money.com/conference](https://thoughtfulmoney.com/conference).

Alright, folks. Please let, Charles know how much you appreciate it to hear both in the comments, but also by hitting the like button and then clicking the subscribe button below, as well as that little bell icon right next to it. Charles, my friend, again, I really appreciate you hopping on with 0 notice to do this today.

It's been a great discussion. Yeah.

It's been my pleasure, Adam. Thank you very much for the invitation. Alright.

And everybody else, thanks so much for watching.